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SUBJECT: PIPELINE UPDATE: NABUCCO TROUBLES WITH TURKEY; OMV
SEEKING USG FACILITATION IN IRAQ, AZERBAIJAN

REF: VIENNA 242

Classified By: Econ-Pol Counselor Dean Yap

¶1. (C) SUMMARY: Nabucco pipeline consortium lead OMV continues to struggle with Turkish government demands which have delayed the project's launch for over a year. OMV reps repeated their hope for USG facilitation in future Iraqi gas supplies to Europe (ACTION REQUEST in para 7). OMV reps say they are still talking to Iranian authorities but are not currently negotiating a supply deal for Nabucco. END SUMMARY.

¶2. (SBU) Embassy reps reviewed recent Nabucco pipeline developments in two recent meetings with new OMV Gas Regulatory Affairs manager Astrid Dolak and Business Development / International Affairs Head Gottfried Steiner. Negotiations with Turkey remain the final hurdle to an Intergovernmental Agreement with transit countries, which Steiner thought could be ready for signature as soon as October. The Turkish government has now erected another stumbling block in the form of a proposed "host government agreement" between Turkey and the Nabucco partners to include a "15 percent-clause" under which potential gas shippers would be obligated to sell 15% of the gas flowing through the pipeline to a Turkish company (to be named by the Turkish government) for a regulated price. The Nabucco consortium and its future suppliers cannot accept such a pre-condition, Steiner said.

¶3. (C) On Azerbaijan, Steiner noted that OMV reps had met with Special Envoy Gray and US Embassy representatives in Baku and that OMV was on the shortlist in a tender for 13 bcm of Azeri gas after 2012. Azerbaijan alone could supply enough gas to make Nabucco viable. OMV reps expressed hope that Turkmenistan and Azeri authorities are coming closer to agreement on trans-Caspian gas transport, opening the prospect of Turkmen gas for Nabucco.

¶4. (C) Recalling his June 2 discussion with Deputy Assistant Secretary Matt Bryza, Steiner asked whether the USG had relayed Nabucco's interest in Iraqi gas to Iraqi authorities or suppliers. Steiner noted that OMV had been "blacklisted" in Baghdad due to its agreement with Kurdish Regional Government authorities on production-sharing in the absence of a federal "Hydrocarbon Law." Nabucco would appreciate any USG efforts to help Iraq sort out its conflicting levels of authority in this matter, he said.

IRAN

¶5. (SBU) No further progress has been made in negotiations on the development of the South Pars gas fields, but OMV is "still talking" with Iranian authorities about a gas liquefaction plant. Steiner speculated that Teheran may be

losing interest in Western partners and shift the project to Russian interests. OMV is not, Steiner said, currently talking to Iran about gas for Nabucco.

COMMENT

¶16. (SBU) OMV would welcome USG support for the conclusion of a transit deal with Turkey and supply contracts in the Caucasus/Central Asia and with Iraq. While Nabucco has a broad array of supply options including Iran, Steiner appeared more optimistic about Caspian potential than he had in previous meetings. END COMMENT.

ACTION REQUEST

¶17. (SBU) Post would appreciate feedback from any Department follow-up on the issue of future Iraqi gas supplies for Nabucco/other European pipelines which can be relayed to OMV representatives. Post understands that the awarding of contracts remains a private-sector issue.
Girard-diCarlo